

August 31, 2009



Jim Young
Chairman

Mr. Daniel R. Elliott III
Chairman
Surface Transportation Board
395 E. Street SW
Washington, DC 20423

Dear Chairman Elliott:

This letter is in response to the Board's request of July 6, 2009 regarding our plans for the remainder of 2009. As noted in the letter, this year has seen record declines in shipments. We cannot be certain that there will be a seasonal increase during the period historically referred to as the fall peak season. With nearly ten percent of our workforce furloughed, over 1800 locomotives in storage, and about 54,000 railcars parked, we are fully prepared to respond to any increase in demand for transportation services, and in fact, are actively working to increase our business levels.

This is also a time of unprecedented regulatory and legislative activity regarding railroads. We continue to work with our customers, the Congress, and Administration to help assure that any actions that are being contemplated will serve to strengthen our ability to serve our customers, invest for the future, and help restore our Nation's economy to good health. Our ability to do this will be determined by our ability to earn an adequate financial return. The record is clear on this: the increased capacity of our railroad is a direct result of our sustained capital investment for many years which in turn is dependent upon increased financial returns.

In response to your specific questions:

"To the extent your railroad has been affected by extreme weather conditions, the effort your railroad has undertaken to restore damaged infrastructure and restore service;"

The impact of weather on our railroad has been modest this year. The rapid recovery from the few events that did take place was a result of a stronger infrastructure, a more refined process, and a well-developed response capability.

“The steps your railroad is taking to ascertain demand for and prepare for this year’s peak shipping season, with an emphasis on the commodity areas of agriculture (grain, grain products, and ethanol) and coal;”

While there is very little indication that there will be much of a peak season this year, we continue to discuss with our customers their projected needs so that we will be able to maintain our current service levels should business improve. We attempt to track their inventory levels, as well as follow a variety of national and international economic indices to be sure that we will be prepared for traffic growth. This is the case for all of the products we carry including agricultural commodities and coal.

“A projection, by month, of your railroad’s overall performance goals in the areas of cars-on-line, terminal dwell, train speed, and expected trainmen and engineer employment levels from September through December of this year; your plans for achieving those goals; and your railroads plans to communicate the above information to customers, beyond the standard commercial relations;”

Our projections are driven by the prospects of business returning to the railroad and the recovery of the economy as a whole. Month-to-month projections at this state are relatively meaningless as we are constantly evaluating the situation and preparing to put our resources back to work to handle the demand. With our operations more fluid than they have ever been, we are confident that we will meet the demands of our customers. We are achieving records on the performance measurements listed. Trainman and engineer employment will depend on actual traffic volumes. We have added new features to our customer website to assist our customers in tracking our performance.

“The number of freight cars currently in storage, and plans to restore cars to service, should demand exceed expectations;”

As mentioned above, we have nearly \$6 billion of assets idled and nearly 10% of our workforce furloughed. Our active inventory levels are managed closely. We have detailed plans for retrieving freight cars, by type, from storage so that we can quickly add to our capacity should the market improve. We are working to ensure that our locomotives in storage remain in good working order so that they will be ready when recalled to service.

In response to your questions about our plans for our workforce in the near future: our current average number of furloughed employees is approximately 4300. About one-third of these are in our Alternative Work and Training Service (AWATS) program that provides full-benefits and about eight days of work per month to furloughed employees.

This keeps a group of employees ready to return to work as business improves and to fill positions being vacated by retirement and attrition. We also track, by crew district, a number of workforce metrics so we know how fast we can increase our manpower if needed.

We have not yet set our capital spending plan for 2010, but it will include significant spending on safety and track restoration projects. It is important to note that hundreds of million dollars that had been originally planned for capacity spending will instead be spent on the first stages of Positive Train Control as required by the Rail Safety Act of 2008. Despite an FRA study showing very little economic benefit to this technology, the timeline on this mandate requires this expenditure in 2010.

For the remainder of 2009, our expectation is that we will continue on our current capital spending plan, which totals \$2.6 billion. While some of that is for capacity increases, the majority of it goes toward restoration and replacement of our existing rail infrastructure. Again, our ability to continue to invest at these levels depends on our ability to earn financial returns to support them.

Sincerely,

A handwritten signature in blue ink, reading "Tim Young". The signature is written in a cursive, flowing style with a large initial "T".